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ROTHMANS OF PALL MALL CANADA LIMITED

annual report

1965

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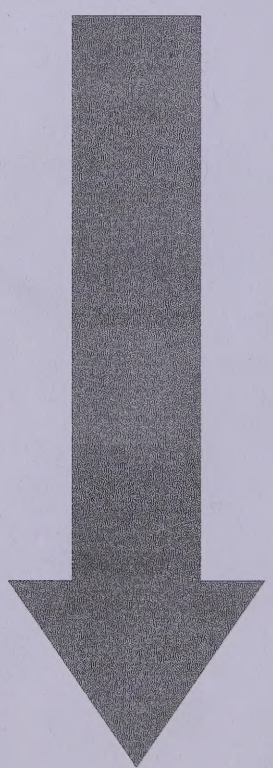

Sept 30, 1965

ROTHMANS OF PALL MALL CANADA LIMITED

ANNUAL REPORT 1965

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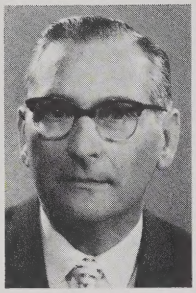
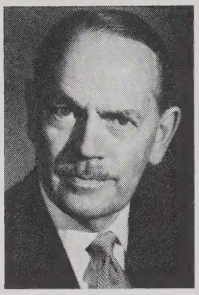
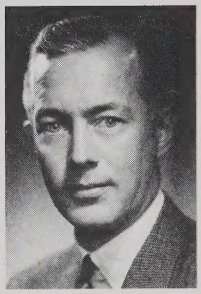
JOEL W. ALDRED



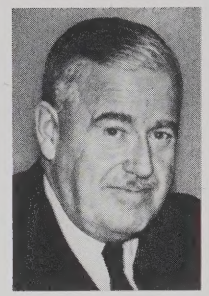
FREDERICK ANSALDO



SIR FRANCIS DE GUINGAND



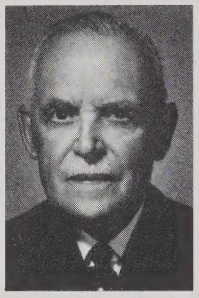
JOHN H. DEVLIN



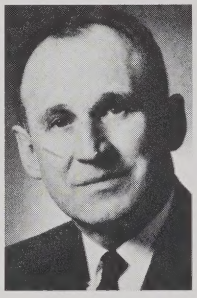
SHIRLEY G. DIXON

HAROLD S. FOLEY

CHARLES A. MASSEY



RT. HON. L. S. ST-LAURENT



JOHN E. SHAFFNER

WILMAT TENNYSON

Directors:

JOEL WALKDON ALDRED
FREDERICK ANSALDO
MAJOR GENERAL SIR FRANCIS DE GUINGAND, K.B.E., C.B., D.S.O.
JOHN HERBERT DEVLIN
SHIRLEY GREENSHIELDS DIXON, O.B.E., Q.C.
HAROLD SCANLON FOLEY
CHARLES ALBERT MASSEY
THE RIGHT HONOURABLE LOUIS STEPHEN ST-LAURENT, Q.C., LL.D., P.C.
JOHN ELVIN SHAFFNER
WILMAT TENNYSON

Officers:

Chairman of the Board	THE RIGHT HONOURABLE LOUIS STEPHEN ST-LAURENT, Q.C., LL.D., P.C.
President	JOHN HERBERT DEVLIN
Treasurer	PAUL JACOBUS ERASMUS
Secretary	ROBERT HOWIE HAWKES

Head Office: 75 Dufflaw Road, Toronto 19, Ontario.

Auditors: PRICE WATERHOUSE & CO.

Bankers: BANK OF MONTREAL

Registrar & Transfer Agents: THE ROYAL TRUST COMPANY

Solicitors: WAHN, MAYER, SMITH, CREBER, LYONS, TORRANCE & STEVENSON

Directors' Report

All-time records were again set for both sales and profits for the financial year ended June 30, 1965. Sales increased by $15,740,000, or a 13 percent gain, and net profit increased by $1,432,000 or a 65 percent gain over the previous year. Earnings per share increased from $1.71 to $2.81.

FINANCIAL YEARS ENDED JUNE 30	1965	1964	INCREASE
SALES	$134,804,000	$119,064,000	13%
EARNINGS:			
Before Taxes	5,297,000	2,308,000	130%
Net	3,653,000	2,221,000	65%
Per Common Share	$2.81	$1.71	65%

Earnings before tax increased by 130 percent, from $2,308,000 in 1964 to $5,297,000 in 1965. For the first time, earnings were subject to federal income tax, since the balance of prior years' unclaimed tax losses was more than offset by earnings for the year under review. In the new financial year, federal income tax will absorb a greater portion of the total earnings.

When your Company purchased Rock City Tobacco Company (1960) Limited in 1963, the total firm commitment to Rothmans of Canada amounted to $7,365,000. Your Company has now repaid $4,265,000, and the final payment of $3,100,000 will be made on December 31, 1965. These repayments have been, and will be, financed entirely out of earnings.

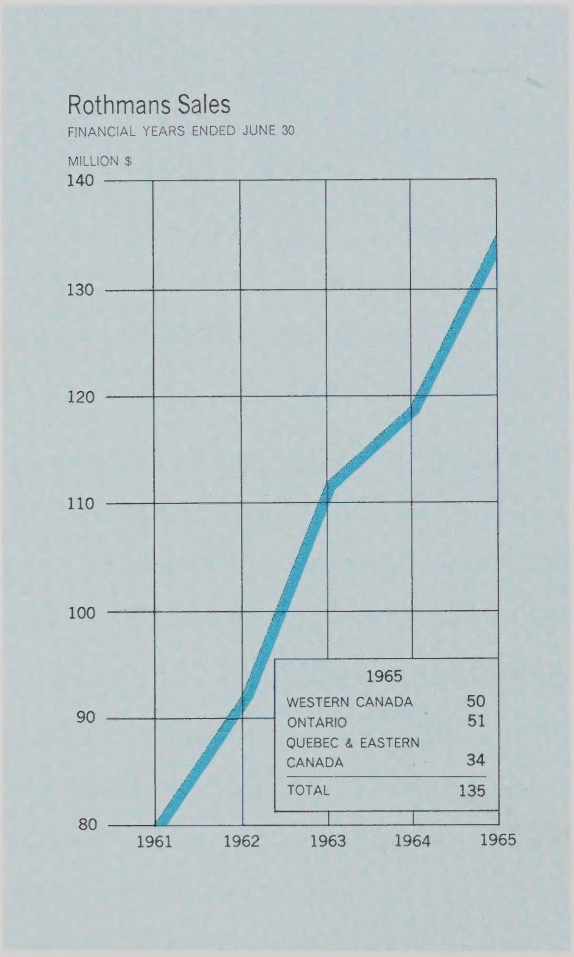
Your Company's sales continue to out-pace the growth of the total industry, and increased by 840,000,000 cigarettes, or 10.7 percent, from 7,831 million cigarettes in 1964 to 8,671 million in the year under review.

Rothmans King Size, Canada's largest selling king size brand, continued to show the greatest sales gain of any major brand in the cigarette industry. All of your Company's major brands reached all-time sales records, showing substantial gains over the previous year.

The following graph outlines the sales history of Rothmans of Pall Mall Canada Limited for the

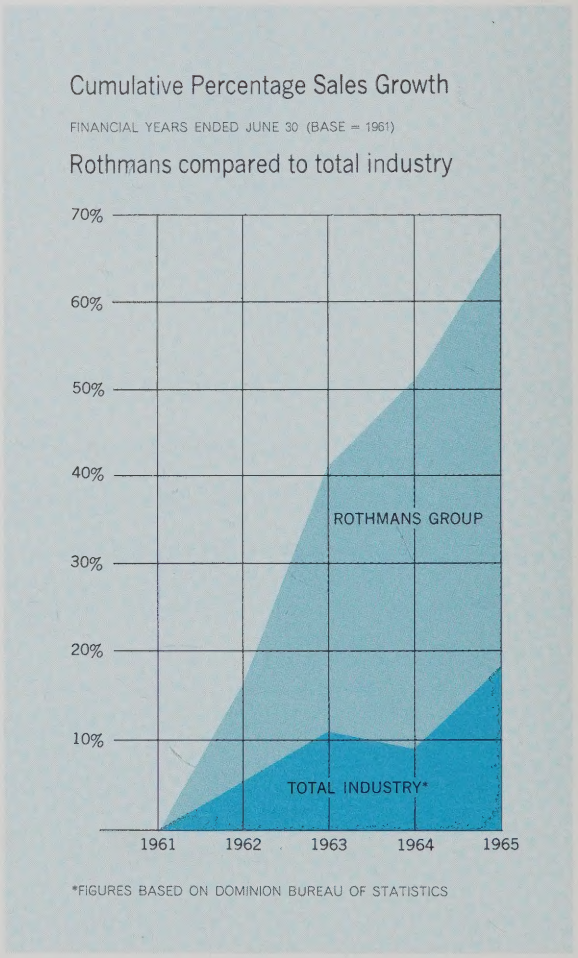
past five years (since your Company issued shares on the Canadian market in 1961). Also shown is a breakdown of the sales by major marketing area, showing the strength on a national basis.

The total industry cigarette production set a new record and increased by 8.7 percent to 42,450 million cigarettes, versus 39,054 million



in the previous year. However, since many new brands were put into the market during the period, industry production figures are not necessarily an accurate gauge of over-the-counter sales. Per capita consumption, at 2,190, is still considerably below the figure of 2,680 in the United States.

The following graph compares Rothmans sales performance with total industry over a five-year period, using 1961 as a base:



King size products continue to be the fastest-growing segment of the Canadian cigarette market, and many new king size cigarettes and

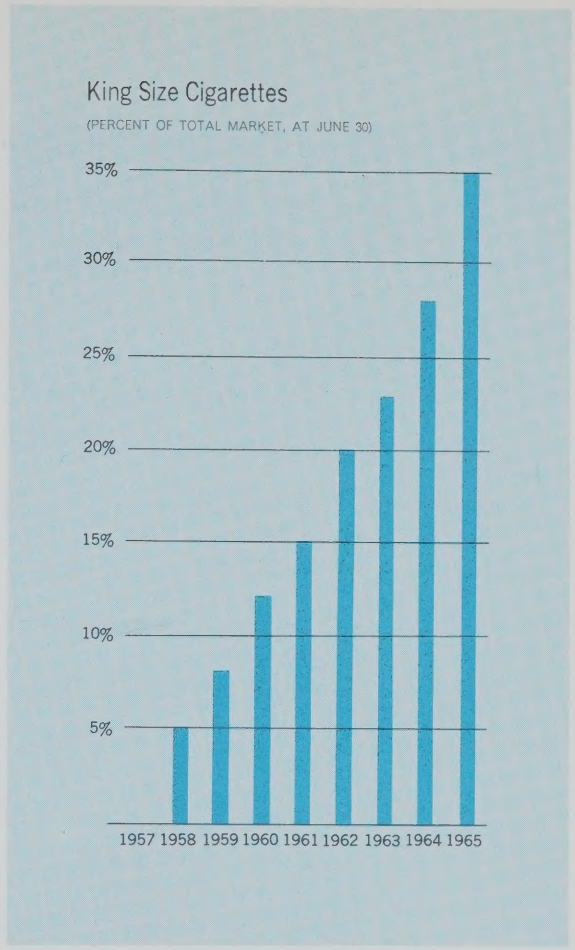
king size adaptations of old brands have entered the market in the past twelve months. King size cigarettes now represent 35 percent of the total market, versus 28 percent in the previous year, and zero in 1957 when Rothmans introduced Canada's first king size cigarette. King size cigarettes constituted 70 percent of your Company's total cigarette sales.

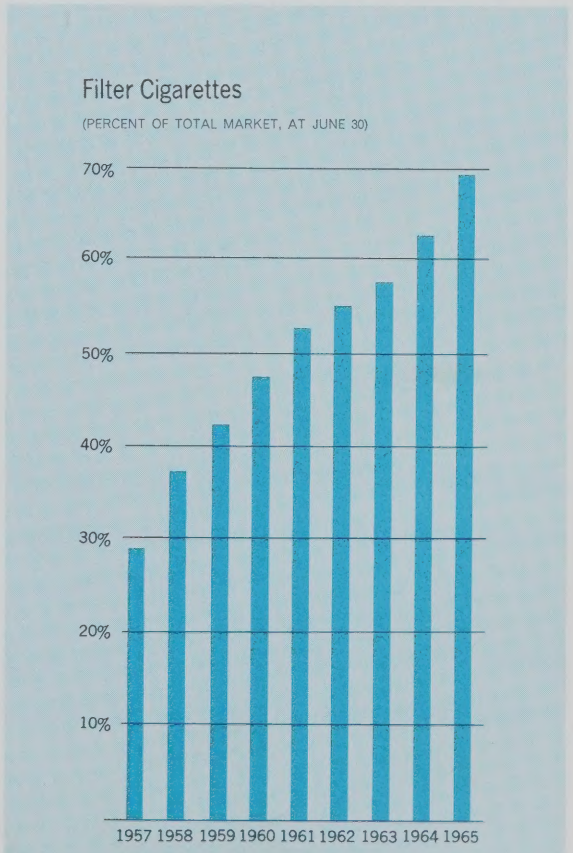
Filter cigarettes continue to take an increasing share of the total market, as they do throughout the world, and have now climbed to 69 percent of the total Canadian cigarette market, compared to 63 percent a year ago. Filter cigarettes account for 87 percent of your Company's total cigarette sales.

Since your Company's products are predominantly in the king size and filter fields, the two growth segments of the market, Rothmans continues to out-perform the industry.

In 1964 your Company launched two new products, Craven "M" in the menthol market, and Riggio in the charcoal filter market.

Craven "M", which was launched in April 1964, now accounts for more than 13 percent of the menthol market. It is currently the only menthol brand which continues to increase its share of the total market.





At the time of the annual meeting in September 1964, your Company was in the process of launching Riggio, a new cigarette brand, in the charcoal filter market. While the Canadian charcoal filter market has not shown the anticipated growth, Riggio, nevertheless, is a worthwhile addition to your Company's brands. While both the menthol and charcoal segments of the total market are relatively small in Canada, it is important for your Company to have brands available, in the event these portions of the market increase as they have done in the United States.

A new addition to the Toronto factory is now being completed. This building is being rented on a five-year lease basis, with option to renew, and will double the production capacity in Toronto. This capacity, together with the Quebec production facilities, will allow your Company to produce approximately one-third of the total Canadian cigarette market.

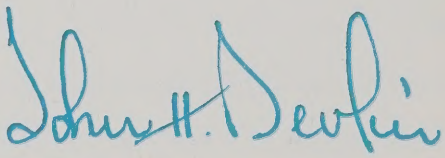
This building will also be used to house the new administration offices and accounting facilities. The Ontario Sales Division will move from its present Toronto location to the premises now accommodating the administration offices.

Due to expanding sales and resultant warehouse requirements, several branch offices across the country have been replaced by larger buildings with space for future expansion. In Vancouver and Calgary, new warehouses and offices have been completed, and construction is presently in progress in Winnipeg and Montreal. All of these buildings are on a lease basis.

Annual Meeting

The Shareholders' Annual Meeting will take place on Tuesday, September 28, 1965. The formal notice of meeting and proxy form are sent with this report.

The Board wishes to express its thanks to the shareholders for their continued interest in the affairs of the Company. They would also like to express their gratitude to the employees for their efficiency, enthusiastic support and co-operation, which made possible the progress of the Company in this past year.



President

Financial

Earnings and Taxes

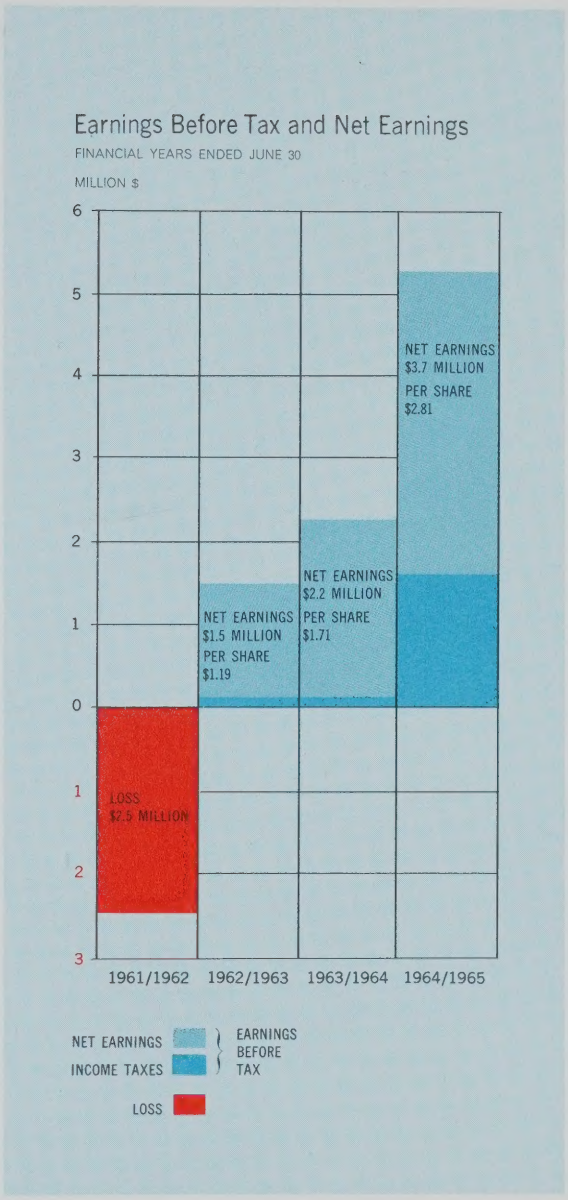
Increased earnings for the year ended June 30, 1965 are a direct result of the continued expansion of the Company's sales volume and the change in cigarette price effective September 15, 1964.

Earnings before taxes as a percent of sales have also increased.

	1965	1964
Earnings before taxes as percent of net sales	3.9	1.9
Earnings before taxes as percent of sales (excluding excise duty, sales and excise taxes)	11.3	5.8

The provision for income taxes for the year under review amounted to $1,644,000 (1964—$87,000). In arriving at the provision for income taxes, an estimated tax reduction of $1,195,000 was taken into account. This reduction arose through the utilization of the balance of prior years' tax losses carried forward, as well as an excess of capital cost allowance claimed for tax purposes over depreciation recorded in the accounts (see Notes 7 and 8 to the Financial Statements).

The additional capital cost allowance available for tax purposes resulted from an excess of depreciation recorded in the past over capital cost allowance claimed for tax purposes and the special allowance afforded new plant and machinery acquired after June 13, 1963. These acquisitions, defined under "Class 19", may be written off for tax purposes at a rate of 50 percent per annum rather than the diminishing balance basis of 20 percent normally applied to equipment in this classification.



Note:

All comparative figures in this report for the financial years prior to July 1, 1963 have been adjusted to give retroactive effect to the acquisition of Rock City Tobacco Company (1960) Limited. This has been done so that a meaningful comparison can be made between the figures of the current and previous financial years.

In arriving at income taxes chargeable against earnings, the Company will continue to take into account the estimated tax reduction arising from such excess capital cost allowance, until cumulative depreciation recorded equals capital cost allowance claimed for tax purposes. Thereafter, the resulting tax savings will not be deducted from estimated income taxes in the Statement of Earnings, but will be reflected in a deferred tax credit account.

At June 30, 1965, the Company had completely utilized, for tax purposes, losses carried forward from prior years. There remained an amount of $1,694,000, representing the excess of depreciation recorded in the books over capital cost allowance claimed for tax purposes.

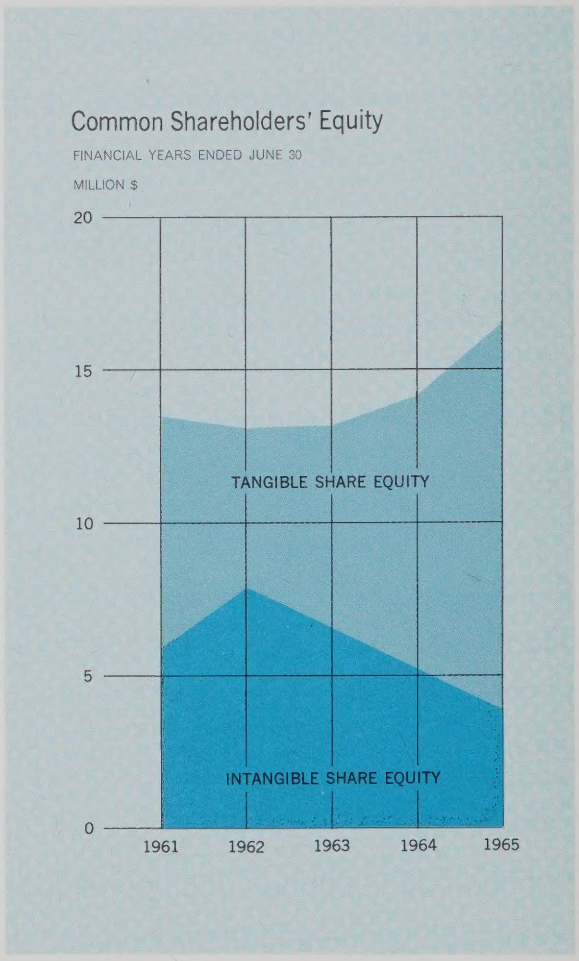
Of the total net earnings of $3,653,000, an amount of $2,458,000 was transferred to Retained Earnings and $1,195,000, representing the estimated reduction of income taxes, was credited to the Establishment Account.

Shareholders' Funds

	Year Ended June 30			
	1965	1964	1963	1962
Total Common Shareholders' Equity ($000)....	16,515	14,057	13,051	13,000
per share.....	$12.70	$10.81	$10.04	$10.00
Tangible Common Shareholders' Equity ($000)....	12,480	8,827	6,616	5,100
per share.....	$9.60	$6.79	$5.09	$3.92

The higher Common Shareholders' Equity reflects the continued improvement in earnings.

In 1962 Tangible Common Shareholders' Equity represented only 39.2 percent of the total Common Shareholders' Equity; as at June 30, 1965, this percentage had increased to 75.6 percent.



Working Capital

After providing for the retirement of the Notes Payable to Rothmans of Canada Limited ($3,100,000) and capital expenditure of $2,060,000, working capital was reduced by $304,000 during the year. Total working capital at June 30, 1965 amounted to $5,992,000 (1964—$6,296,000).

(Continued on page 16)

Four-Year Financial Review

(in thousands of dollars)

	1965	*1964*	*1963*	*1962*
Sales				
Cigarettes	130,007	115,051	108,376	88,291
Other tobacco products	4,797	4,013	3,877	3,910
Net sales	134,804	119,064	112,253	92,201
Excise duty, sales and excise taxes	88,116	79,356	74,742	61,770
Sales, excluding excise duty, sales and excise taxes	46,688	39,708	37,511	30,431
Depreciation	1,226	1,162	1,001	1,025
Interest	1,133	1,045	804	638
Earnings				
Earnings—before income tax	5,297	2,308	1,632	2,493
Income tax	1,644	87	81	12
Net earnings	3,653	2,221	1,551	2,505
—as a percent of net sales	2.7%	1.9%	1.4%	—
—as a percent of sales exclusive of excise duty, sales and excise taxes	7.8%	5.6%	4.2%	—
Net earnings per common share	$2.81	$1.71	$1.19	—
Capital Expenditure—Net				
Machinery and equipment	1,716	1,523	109	178
Other fixed assets	344	295	297	207
	2,060	1,818	406	385
Working Capital				
Current assets	38,431	32,068	29,945	26,519
Current liabilities	32,439	25,772	22,277	19,786
Balance June 30th	5,992	6,296	7,668	6,733
Long-Term Indebtedness	301	3,424	6,490	7,675
Common Shareholders' Equity				
Common share capital issued	13,000	13,000	13,000	13,000
Total common shareholders' equity	16,515	14,057	13,051	13,000
Tangible common shareholders' equity	12,480	8,827	6,616	5,100
Total equity per common share	$12.70	$10.81	$10.04	$10.00
Tangible equity per common share	$ 9.60	$ 6.79	$ 5.09	$ 3.92

Consolidated Balance

ASSETS

	1965	1964
Current Assets:		
Accounts receivable—		
Trade	$ 5,735,219	$ 4,624,032
Due from affiliated companies	5,904	13,630
Other	143,970	337,484
	5,885,093	4,975,146
Inventories, at average cost—		
Leaf tobacco	23,151,240	20,167,391
Manufactured stock	7,842,719	5,663,442
Packaging material and other	1,434,424	1,109,641
	32,428,383	26,940,474
Prepaid expenses	117,831	152,435
Total Current Assets	38,431,307	32,068,055
Fixed Assets, at cost (Note 1)	14,468,549	12,916,683
Less—Accumulated depreciation	7,679,564	6,961,736
Total Fixed Assets	6,788,985	5,954,947
Other Assets:		
Establishment account (Notes 2 and 8)	8,533,320	8,533,320
Less—Amortization	3,150,000	1,955,000
	5,383,320	6,578,320
Goodwill, at cost (Note 3)	3,338,218	3,338,218
Trademarks, at cost	113,680	113,680
Total Other Assets	8,835,218	10,030,218

APPROVED ON BEHALF OF THE BOARD:

JOHN H. DEVLIN, *Director*
C. A. MASSEY, *Director*

	$54,055,510	$48,053,220

) (incorporated under the Canada Corporations Act on May 8, 1956) AND SUBSIDIARY COMPANIES

ce Sheet—June 30, 1965

LIABILITIES AND SHAREHOLDERS' EQUITY

	1965	1964
Current Liabilities:		
Bank loan and advances (secured by inventories and accounts receivable)	$20,358,176	$16,498,624
Accounts payable and accrued liabilities	1,625,277	1,408,417
Estimated income taxes	1,562,632	8,662
Excise, sales and other taxes	5,347,002	4,504,328
Due to affiliated companies	16,150	15,596
Note payable to an affiliated company including accrued interest	3,530,329	3,336,329
Total Current Liabilities	32,439,566	25,771,956
Deferred Payments	—	23,438
Provision for Retirement Annuities	300,830	300,830
5% Note Payable to an Affiliated Company	—	3,100,000
Total Liabilities	32,740,396	29,196,224
Shareholders' Equity (Note 4):		
Common stock—		
Authorized—		
1,600,000 shares without nominal or par value		
Issued—		
1,300,000 shares	13,000,000	13,000,000
Class "A" Redeemable Deferred shares—		
Authorized and issued—		
180 shares of a par value of $10,000 each	1,800,000	1,800,000
Class "B" Convertible Deferred shares—		
Authorized and issued—		
300,000 shares without nominal or par value	3,000,000	3,000,000
	17,800,000	17,800,000
Retained earnings	3,515,114	1,056,996
Total Shareholders' Equity	21,315,114	18,856,996
	$54,055,510	$48,053,220

Notes to Financial Statements

JUNE 30, 1965

1. Fixed Assets and Depreciation:

(a) The fixed assets and depreciation accumulated thereon are as follows:

	1965		1964	
	Asset	Accumulated depreciation	Asset	Accumulated depreciation
Land	$ 208,752	—	$ 208,752	—
Buildings	2,778,940	1,173,261	2,777,345	1,087,265
Machinery	10,488,731	6,043,290	9,119,535	5,477,504
Motor vehicles	585,827	298,094	581,630	266,690
Leasehold improvements (Note 1b)	406,299	164,919	229,421	130,277
	$14,468,549	7,679,564	$12,916,683	6,961,736

Depreciation has been recorded using generally the diminishing balance method at the maximum rates allowed for federal tax purposes. The accumulated depreciation on machinery includes an amount of $264,000, based on the volume of production, of which $97,000 was charged to the operations of the year under review.

(b) Rentals payable under long term leases approximate $325,000 annually. About one-half of this amount is committed for a term of five years and the remainder for an average term of approximately ten years.

(c) Capital expenditures for the year ending June 30, 1966 are expected to aggregate $2,500,000, whereof $1,170,000 has been committed.

2. Establishment Account:

The establishment account represents the total of the accumulated losses from dates of incorporation of Rothmans of Pall Mall Canada Limited and two subsidiary companies to June 30, 1959, June 30, 1961 and June 30, 1962 respectively, considered by Management as representing the cost of establishing these businesses. The account is being amortized in the manner described in Note 8.

3. Goodwill:

The goodwill, which arose from the acquisition of the total capital stock of Rock City Tobacco Company (1960) Limited, is represented, to the extent of $3,000,000, by the entire Class "B" Convertible Deferred shares.

4. Class "A" and Class "B" Shares:

The Class "A" Redeemable Deferred shares, non-dividend bearing and non-voting (except in circumstances defined by By-Law No. 12), will be redeemable only to the extent of available funds. As more fully set out in By-Law No. 12, available funds means consolidated net earnings in excess of $780,000 per annum (equivalent to 6% of the company's $13,000,000 invested capital) computed on a cumulative basis commencing with the financial year ending June 30, 1966. Redemption of the shares will be at the rate of $10,000 per share commencing December 31, 1966, up to a maximum of 90 shares per annum. There is no time limit on the redemption of these Class "A" shares.

ROTHMANS OF PALL MALL CANADA LIMITED

(incorporated under the Canada Corporations Act on May 8, 1956)

AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Working Capital

FOR THE YEAR ENDED JUNE 30, 1965

	1965	1964
Working capital was decreased by:		
Fixed asset acquisitions—net	$ 2,059,996	$ 1,818,293
Reduction in long term portion of notes payable	3,100,000	3,066,187
Other	23,438	10,000
	5,183,434	4,894,480
Working capital was increased by:		
Net earnings for the year	3,653,118	2,220,862
Add–Expenditures not involving a current outlay of funds–		
Depreciation	1,225,958	1,161,977
Funds from operations	4,879,076	3,382,839
Other	—	140,000
	4,879,076	3,522,839
Decrease in working capital	304,358	1,371,641
Working capital, beginning of year	6,296,099	7,667,740
Working capital, end of year	$ 5,991,741	$ 6,296,099
Current assets	$38,431,307	$32,068,055
Current liabilities	32,439,566	25,771,956
Working capital	$ 5,991,741	$ 6,296,099

AUDITORS' REPORT

To the Shareholders of Rothmans of Pall Mall Canada Limited:

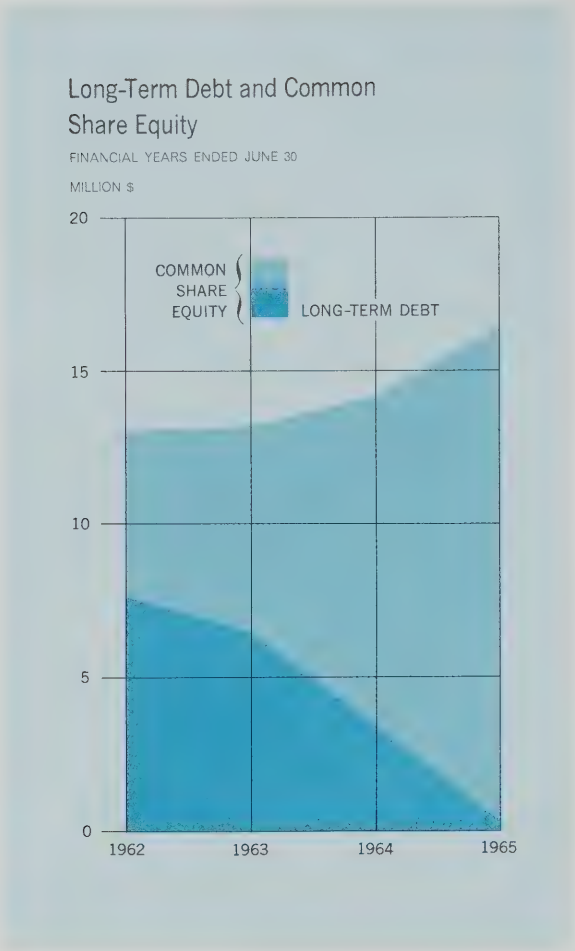
We have examined the consolidated balance sheet of Rothmans of Pall Mall Canada Limited and subsidiary companies as at June 30, 1965 and the consolidated statement of earnings and retained earnings for the year ended on that date. Our examination of the financial statements of Rothmans of Pall Mall Canada Limited and its subsidiaries, other than Rock City Tobacco Company (1960) Limited, included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of Rock City Tobacco Company (1960) Limited.

In our opinion the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings, and the notes thereto, present fairly the financial position of the companies as at June 30, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the consolidated statement of changes in working capital for the year ended June 30, 1965, which is presented as supplementary financial information and, in our opinion, the statement presents fairly the information shown therein.

Toronto, July 30, 1965. Price Waterhouse & Co., *Chartered Accountants.*

(Continued from page 8)



Purchase of Rock City

At the time of the purchase of Rock City Tobacco Company (1960) Limited in 1963, from Rothmans of Canada Limited, the total indebtedness in the form of Notes Payable was $7,365,000. On December 31, 1964, the Company had retired notes of $4,265,000 and the final payment of $3,100,000 will be made on December 31, 1965.

In addition to the Notes Payable, your Company issued 180 Class "A" Redeemable Deferred shares (par value $10,000 each) and 300,000 Class "B" Convertible Deferred shares (N.P.V.) to Rothmans of Canada Limited in exchange for the Rock City shares.

The Class "A" and "B" shares are redeemable and convertible, respectively, only out of profits in excess of $780,000 per annum (equivalent to 6 percent of the paid-up common share capital of Rothmans of Pall Mall Canada Limited). The calculation of these profits commences with the financial year ending June 30, 1966.

The earliest possible dates for the redemption of the 180 Class "A" shares are: 90 shares ($900,000) within six months following June 30, 1966, and the balance of 90 shares within six months following June 30, 1967. The earliest date for conversion of the 300,000 Class "B" shares to Common shares is June 30, 1968.

Establishment Account

On June 30, 1962, the total consolidated Establishment Account was $8,533,000. The amount represented the initial losses in establishing Rothmans of Pall Mall Canada Limited, Rock City Tobacco Company (1960) Limited and subsidiary companies.

Commencing with the year ended June 30, 1963, the Companies have applied, against the Establishment Account, amounts equal to the reduction of income taxes referred to earlier in this report. Since then, $3,150,000 has been credited in this manner, leaving a balance of $5,383,000 at June 30, 1965.

Interest and Depreciation

Total interest charges amounted to $1,133,000 for the year, compared to $1,045,000 for the previous year. While interest on Notes Payable decreased from $337,000 to $230,000, interest on bank loans increased from $711,000 to $884,000, due to loan increases necessitated by higher inventories.

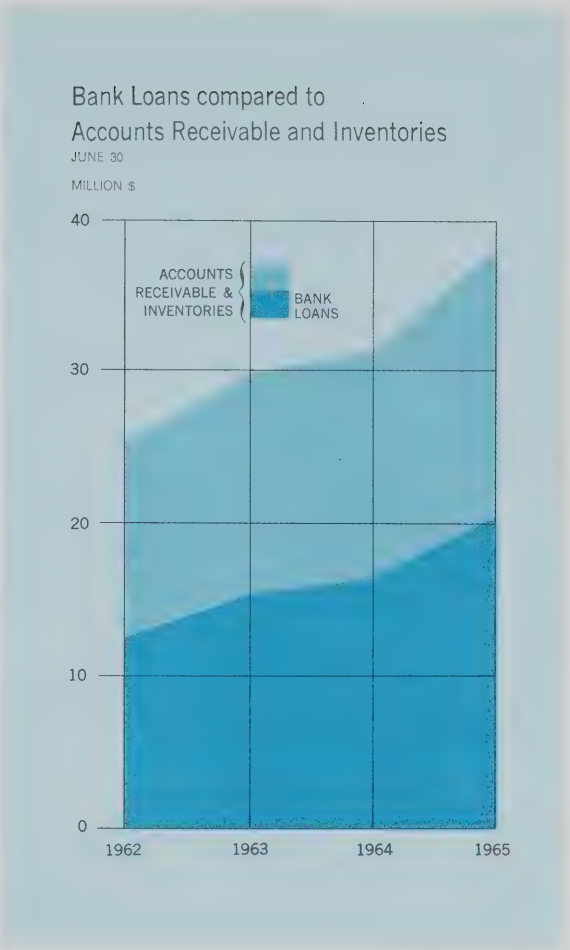
Depreciation for the year was $1,226,000 (1964—$1,162,000) and represented 18.1 percent of the net fixed asset value at year end.

The charges for depreciation are based, as in past years, on the maximum rates allowable for federal income tax purposes, and in addition include a provision, calculated on the volume of production, of $97,000 (1964—$90,000).

Bank Loans

At June 30, 1965, bank loans amounted to $20,358,000, compared to $16,499,000 for the year previous. The changes in bank loans during the past three financial years were as follows:

($000)	Year Ended June 30 1965	1964	1963
Bank loans increased by:			
Current assets increase (decrease):			
Inventories	5,488	2,367	3,556
Accounts receivable & other	875	(244)	(130)
Other—resulting in changes of working capital	304	1,372	(935)
	6,667	3,495	2,491
Bank loans reduced by:			
Other current liabilities increase (decrease)	2,808	2,392	(74)
Net change in bank loans	3,859	1,103	2,565
Bank loans—beginning of year	16,499	15,396	12,831
Bank loans—end of year	20,358	16,499	15,396

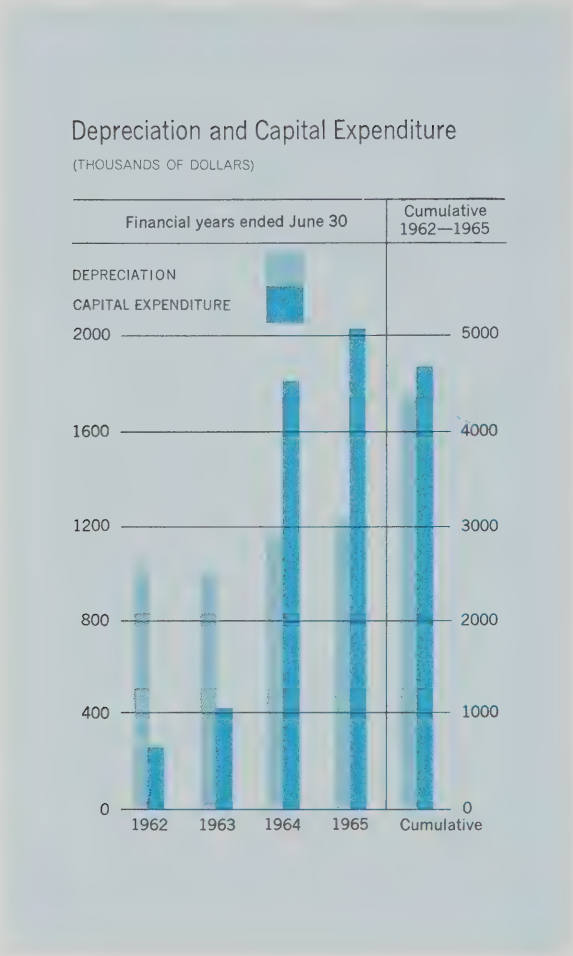


Bank loans, in accordance with Section 88 of the Bank Act, are secured by Accounts Receivable and Inventories.

Capital Expenditure

Capital expenditure (net) for the year amounted to $2,060,000 (1964—$1,818,000). The original estimate for the year was $1,750,000; however, the need to extend the Toronto manufacturing premises and purchase of additional manufacturing equipment increased expenditure for the year.

Cumulative capital expenditure from the year ended June 30, 1962 to June 30, 1965 was

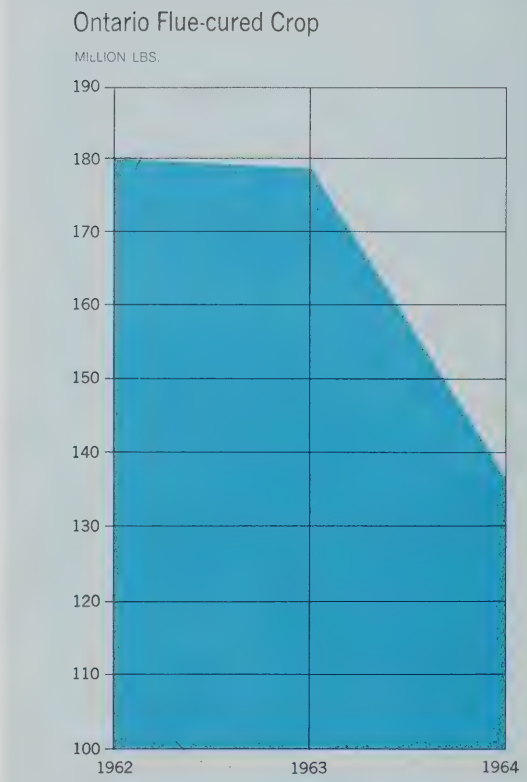


$4,669,000, compared to depreciation for the same period of $4,414,000.

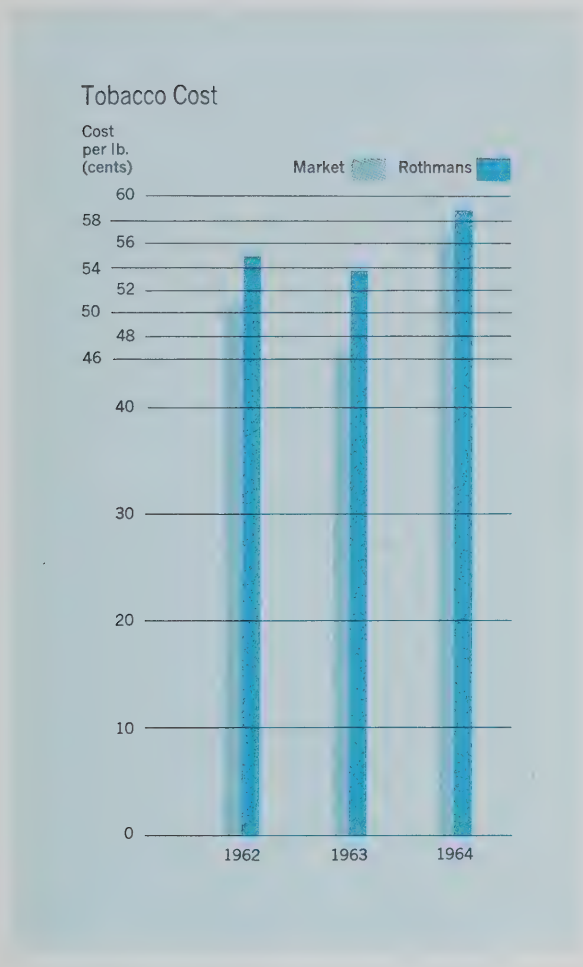
Capital expenditure for the current year is expected to amount to $2,500,000, of which the major portion has been allocated to complete the equipment of the Toronto factory extension and for additional plant mechanization in Toronto and Quebec.

Tobacco

The quality of the 1964 Ontario tobacco crop was one of the best ever produced in Canada; however, as a result of a reduction in acreage, the 1964 crop totalled only 136.5 million pounds compared to 179 million in 1963. Due to the smaller 1964 crop, the prices were higher but the cost per pound for top quality grades of tobacco did not increase in the same proportion as that of the medium and lower grades.



The average price per pound for the total Ontario 1964 crop increased 9.8¢, from 46.8¢ to 56.6¢, while the price paid by your Company increased 4.9¢, from 53.8¢ to 58.7¢.



Your Company continues to pay above-average prices for its tobacco to ensure the highest possible quality in its products.

Distribution of Sales Dollar

A breakdown of the elements of costs, as a percentage of sales, is provided under the title "Distribution of Sales Dollar" appearing below.

In comparison with prior years, the 1965 ratios were influenced by the increase in cigarette prices made during the year under review. This increase amounted to 42¢ per thousand cigarettes, of which your Company's net return, after application of additional sales taxes, was 37.5¢ per thousand cigarettes.

Excise duty, sales and excise taxes at $88 million represented 65.4 percent of your Company's sales dollar (1964—$79 million—66.7 percent).

Distribution of Sales Dollar

(as a percent of sales)

	Financial Years Ended June 30			
	1965	*1964*	*1963*	*1962*
Excise duty, sales and excise taxes	65.4	66.7	66.7	67.0
Leaf tobacco and packaging	17.2	17.5	17.7	17.1
Salaries, wages, administration, overheads and other	5.1	5.2	5.3	5.7
Freight, selling and advertising	6.7	6.8	7.3	11.1
Depreciation	0.9	1.0	0.9	1.1
Interest	0.8	0.9	0.7	0.7
Earnings or loss before income taxes	3.9	1.9	1.4	2.7
Income taxes	1.2	—	—	—
Net earnings or loss	2.7	1.9	1.4	2.7

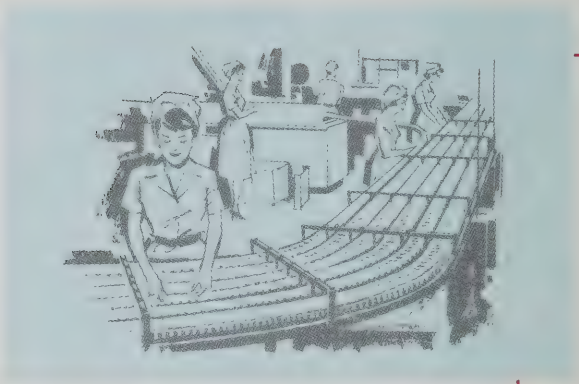
FLOW CHART

Follow the red line from the top left-hand picture and see the sequence of production of Rothmans products.

TOBACCO FARMING The tobacco plants are set out in the fields in late spring and harvested in the fall. The average yearly Canadian crop is in excess of 150,000,000 lbs., and approximately 95 percent is grown in Southern Ontario.

TOBACCO AUCTION After the tobacco is harvested and cured on the farm, it is brought to the auction warehouses where it is graded and sold under the "Dutch Clock" system.

AGING OF TOBACCO The tobacco is then processed and crated in hogsheads made of white spruce, each holding approximately 900 lbs. of tobacco. The tobacco then matures up to three years in warehouses with precise temperature and humidity control.



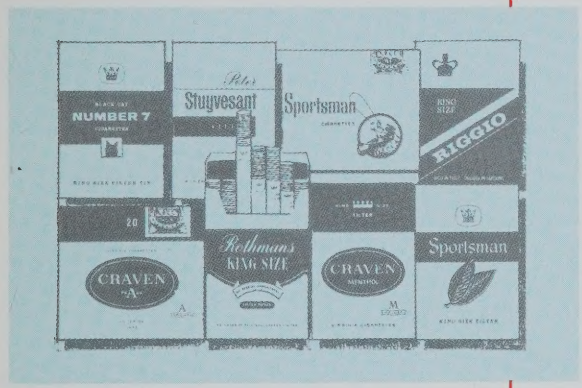
CIGARETTE PACKAGING Cigarettes are packaged in 20's and 25's packages, and then foil-wrapped in cartons of 200. Fifty cartons are then packed in corrugated shipping cases containing 10,000 cigarettes each. Seven layers of protective wrapping around each cigarette!

CIGARETTE MANUFACTURING The fully matured tobacco is further processed in Rothmans Toronto and Quebec City factories. The various grades of tobacco are then blended to exact and secret formulas for production of each of our cigarette products, both plain and filter.

TORONTO FACTORY

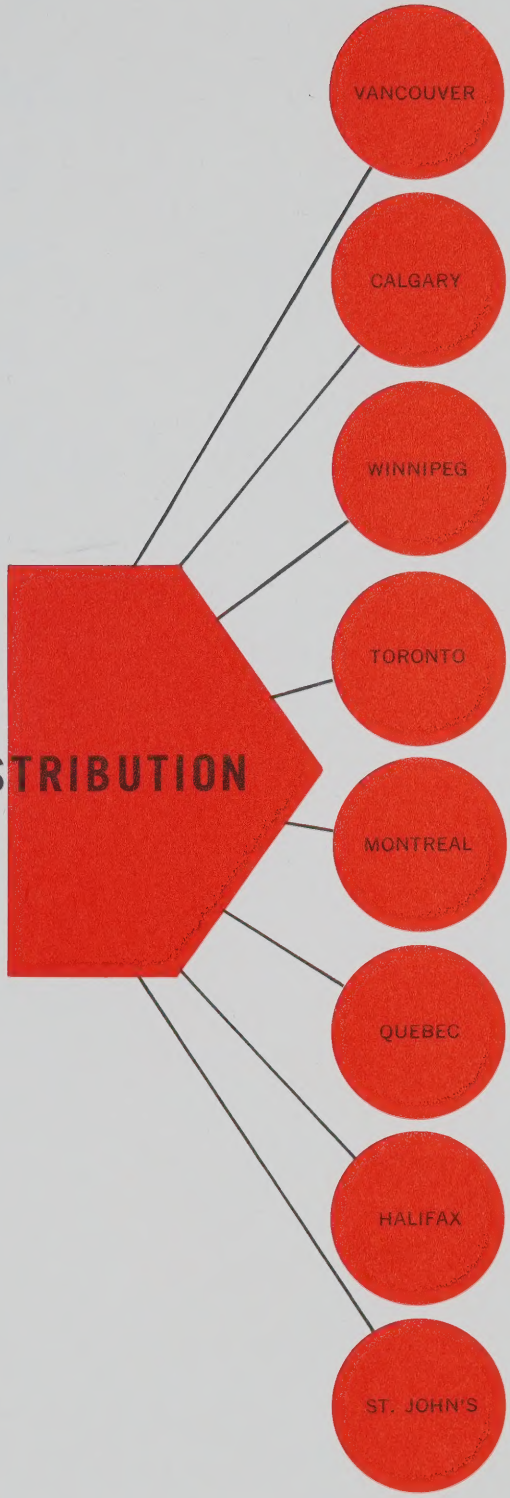
QUEBEC FACTORY

RESEARCH AND QUALITY CONTROL Rothmans laboratory in Canada works in close liaison with Rothmans International Group laboratories throughout the world. Quality control departments constantly check all facets of production, from incoming raw materials to finished products, using precision instruments.



ROTHMANS PRODUCTS Pictured here are a few of Rothmans family of fine products. As well as cigarettes, your Company also produces pipe tobacco and fine cut tobacco for the "roll-your-own" smoker.

DISTRIBUTION From the Toronto and Quebec City factories, products are shipped to branch warehouses across Canada for further distribution to almost 100,000 wholesale and retail outlets from coast to coast.



Highlights in the Annual Report Covering the Year Ended June 30, 1965

Earnings:

Before tax - - - - - - - - - - - - - - - Increased by $2,989,000 or 130% to $5,297,000

Net - - - - - - - - - - - - - - - - - - Increased by $1,432,000 or 65% to $3,653,000

Net per share - - - - - - - - - - - - - Increased from $1.71 to $2.81 per common share

Income Taxes:

Estimated income taxes increased from $87,000 to $1,644,000. For the first time earnings were subject to federal income tax as past losses carried forward were more than offset by the earnings for the year under review.

Rothmans Sales:

Overall net sales - - - - - - - - - - - - Increased by $15,740,000 or 13% to $134,804,000

Cigarette sales - - - - - - - - Increased by 840,000,000 or 10.7% to 8,671 million cigarettes

Filter sales - - - - - - - - - - - - - - 87% of the Company's cigarettes sales are filters

King size sales - - - - - - - - - - - - 70% of the Company's cigarette sales are king size

Canadian Cigarette Industry:

Total cigarette production - - - - - - - - - Increased by 8.7% to 42,450 million cigarettes

Per capita consumption - - - - - - - - - 2,190 in Canada compared to 2,680 in the U.S.A.

Filter market - - - - - - - - - - - - - - Increased from 63% to 69% of total market

King size market - - - - - - - - - - - - - Increased from 28% to 35% of total market

Financial:

Total equity per common share - - - - - - - - - - - - - Increased from $10.81 to $12.70

Tangible equity per common share - - - - - - - - - - - - - Increased from $6.79 to $9.60

Capital expenditure net - - - - - - - - - - - Amounted to $2,060,000 and an expenditure of $2,500,000 is planned for the current year.

Long-term liabilities - - - - - - - - - - - - - - - - Reduced by $3,123,000 to $301,000

Working capital - - - - - - - - - - - - - - - - - Reduced by $304,000 to $5,992,000

General:

Acquisition of Rock City - - - - - - The firm indebtedness incurred with the purchase of Rock City will be discharged on December 31, 1965 by the final payment of $3,100,000.

Expansion - - - - - - - - - - - The addition to the Toronto factory, which will double the capacity, will be completed towards the end of 1965. The factories of the Company in Toronto and Quebec will then be capable of producing approximately one-third of the Canadian market requirements.

Rothmans King Size really satisfies

ROTHMANS OF PALL MALL CANADA LIMITED